## **Proposed Revisions**

During the August 12, 2013 meeting, Board staff provided an overview of proposed changes to the *Financial Performance Framework and Guidance*. At that time, the Board directed staff to make the changes as outlined and present the revised document to the Board for its consideration at the September 9, 2013 meeting. The proposed major revisions include the following:

- Measure Eliminated The Total Liabilities to Equity Ratio (TLER) measure has been eliminated. With the
  removal of the TLER measure, the Board will no longer measure the amount of debt a charter holder has,
  but through the framework's Fixed Charge Coverage Ratio will continue to ascertain a charter holder's
  ability to service its debt.
- Expanded Consideration of Performance In addition to renewal, five-year interval reviews and certain expansion requests, charter holders' financial performance will be considered by the Board in conjunction with the Academic Intervention Schedule and failing school designations. Please note at the August meeting, staff also indicated that the proposed changes would include reviewing financial performance as part of compliance checks. This change is not reflected in the draft presented today. Please see the "Financial Subcommittee Meeting" section below.
- Charter Holder Actions and Board Consideration Clarified Although a new appendix was created in the
  revised framework, much of the information found in Appendix B is not new. The "Charter Holder Action"
  column reflects previous requirements found in the framework with one exception. For the replication
  application package portion of Appendix B, the requirements related to the start-up budget, operational
  budget and assumptions are taken from the replication application approved by the Board in May 2013.
  For consistency purposes, the related requirements for the New School Site Notification Request and
  Arizona Online Instruction (AOI) Program of Instruction Amendment Request were changed to more
  closely align with the replication application.

While the "Board Consideration" information is new to the framework, it reflects current Board practices with the exception of the new process for evaluating financial performance submissions. Please see bullet below for more information.

- <u>Submission Expectations Clarified</u> A new appendix was created that addresses the required financial performance response, which was referred to in the initial framework as "additional information". The appendix's first section, "Financial Performance Response", includes similar information to what was found in the initial framework. The appendix's "Evaluation Criteria for Financial Performance Response" section is new and is formatted similar to the "Evaluation Criteria for Demonstration of Sufficient Progress" section of Appendix D in the Academic Performance Framework.
- <u>Colors Changed</u> The colors used in the framework for "Meets Standard", "Does Not Meet Standard" and "Falls Far Below Standard" now align with the colors used in the Academic Performance Framework.
- <u>Definitions Moved</u> The "Definition of Terms" has been moved to its own appendix.

The other proposed revisions to the *Financial Performance Framework and Guidance* represent clarifying or technical changes.

## **Financial Subcommittee Meeting**

Based on information shared during the Board's August 12<sup>th</sup> meeting, the Board's Financial Subcommittee will meet on September 25<sup>th</sup> at 1 p.m. to discuss whether:

- The Unrestricted Days Cash measure should be modified to an "Unrestricted Days Liquidity" measure that would include the charter holder's unrestricted cash <u>and</u> any available balances on lines of credit disclosed in the audit.
- The charter holder's financial performance should be reviewed as part of compliance checks conducted to issue a letter of good standing.
- The Board should consider further changes to the *Financial Performance Framework and Guidance* to address statements made at the Board's August 12, 2013 meeting regarding the framework's use by outside entities, including lenders and rating agencies.

## **Board Options**

Option 1: I move to approve the *Financial Performance Framework and Guidance* as presented at the meeting.

Option 2: I move to approve the *Financial Performance Framework and Guidance* as presented at the meeting with the modifications discussed (may require specific references depending upon whether clarification of discussion is needed).